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Outward foreign direct investment by Russian MNEs: Focus on home-country push factors, Europe and five CEE countries

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Investigating the Russian economic footprint through outward foreign direct investment (OFDI) and the activities of Russian multinational enterprises (MNEs) has not become either outdated or less interesting, even though, understandably, most of the current attention on Russian influence in Europe has been focused on direct interference in political affairs. In a recent study, we have assessed the international expansion of Russian MNEs, with a focus on home-country push factors, Europe and five EU-member Central and East European (CEE) states, including the Czech Republic, Hungary, Poland, Slovakia and Slovenia. Indeed, we have established some fascinating facts and figures.

Russia has a long history of OFDI, with the golden era ending with the global financial meltdown. By that time, Russian MNEs had become significant factors in international capital flows, though they have never been ranked among the largest MNEs. Having faced two financial crises over the past 10 years that interrupted the upward trend (the last one caused by low oil prices and Western sanctions against Russia over its actions in Ukraine), the current period is probably rather about their survival.

Among the important features of Russian OFDI, the most well-known ones are round-tripping (i.e. FDI leaving the country and returning) and trans-shipping that allow Cyprus, the Netherlands and the British Virgin Islands to lead the unchanging list of Russian FDI recipients (according to official statistics from Russia's central bank). Round-tripping leads to Russian FDI being overestimated in both directions. In addition, round-tripping and the offshore orientation of Russian OFDI are strongly related to negative domestic push factors (including the poor business climate in Russia), as well as to the tax minimization strategies of Russian MNEs. Negative push factors are very important in driving corporate decisions to invest abroad. On the other hand, concerning a typical positive push factor, the Russian state's role in directly promoting foreign expansion, one can argue that the state supports only the largest Russian MNEs but Russian OFDI is not dominated by state-controlled companies (among the top 20 Russian non-financial MNEs, the number and combined value of foreign assets are higher for private companies than for state-controlled ones). State-owned companies possess many advantages that can help them internationalize. However, the Russian state's influence on private companies is also frequently quite significant. One characteristic feature is that the leading Russian private MNEs have an oligarchic ownership structure.

Due to the specific features of Russian OFDI and the lack of statistics referring to the ultimate host/investing country, the role of certain host countries is underestimated, while that of others is overstated. Nevertheless, Europe's leading role in Russian OFDI remains unchallenged. However, it should be emphasized that Europe's share has been falling. This began many years ago and was not directly linked to EU–Russia relations, which – in turn – have definitely reached a very low point at present. As the Minsk II ceasefire agreement of February 2015 has not been met, the end of the sanctions by the European Union, Russia's prime export market and the main destination of Russian OFDI, is not in sight. Russia's pivot towards Asia as a means of diversifying away from Europe had been formulated before the events in Ukraine. Nonetheless, despite some steps in this direction, a dramatic increase in Russian expansion has not been witnessed and is not projected.

In Europe, possibly Italy, Germany and the UK are the largest recipients of Russian FDI (based on the FDI project database of the Moscow-based IMEMO Institute). In Central and Eastern Europe, Bulgaria, Serbia and Romania can be mentioned. The five CEE countries are not among the main destinations, though Russian FDI in the Czech Republic or Poland is also not negligible. Even Slovenia has received notable Russian-involved companies. Nevertheless, company data demonstrate that the activities of Russian investors in the five CEE countries have been paved with failures. These have been evident in both divestments and unrealised plans. The low share of Russian investment in the five CEE countries may be referred to as business opportunities that the Russian parties have failed to exploit.

In general, Russian OFDI is still dominated by oil and gas MNEs, though Russian businesses are represented practically in every sector. In our five CEE countries, most Russian FDI has been done in hydrocarbons, iron, steel and machinery, but banking, software solutions, electronic production, real estate and even the light industry have also been targeted.

Regarding the theorems, all our research suggests that Russian OFDI follows Dunning's eclectic paradigm or Ownership–Location–Internalisation (OLI) of international production to a certain extent, but the extension of the OLI theorem with a home-country leg to OLIH is needed. We have tested this for the five CEE countries.

Opposition to Russian investment could continue to grow in the EU. While examples of Russian pressure on companies to sell to them have been known to occur in CEE countries within the EU, there

are also already precedents in Western EU states for transactions that have failed because of resistance to Russian investment. In general, there is no need to worry about Russian OFDI, but some of the expressed concerns have certainly been attested. We believe that it is the Russian party who would benefit most from alleviating these fears. ■

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